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HR related KPIs that measure sustainable efficiency and productivity in retail

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<p>The purpose of this study was to define which HR related KPIs would really measure sustainable efficiency and productivity in retail. The interest to the subject rise from the authors own personal interest and both current and previous responsible HR roles in retail companies. The case company is a global travel retail operator at Helsinki Airport. The company consists on local, divisional and global organizational levels. Just recently a new set of global HR related KPIs was presented and the reporting of these KPIs was unified. The author's assumption was that these KPIs might not necessarily be those which measure sustainable efficiency and productivity.</p> <p>Qualitative research methodology was utilized in this study. The qualitative research data consisted of two semi-structured deep interviews of HR Directors in other service industry companies: Kesko Oyj and Are Oy. Besides those also Metroauto Group Oy was included in the comparisons based mainly on the author's own personal experience of this company.</p> <p>The results of two deep interviews emphasized that choosing the right set of KPIs is at least partly industry related. Retail in its all forms belongs to the service industry. People are providing services to other people and eventually the end user or the final customer is defining the company's value. Also the company's internal operations are chain of internal services provided to the next link in the chain. Also internally people are providing services to other people. Therefore HR related KPIs are important in trying to define which factors affect the most to the company's success. The interviews showed that management and leaders on every level of the organization should follow also such KPIs that monitor feelings and perceptions of people, both of the customers and the employees.</p> <p>The author recommends that BSC model could be utilized in the case company to keep HR related measuring in balance. To every corner of BSC can be found KPIs where people are involved. Those would be valid both on the local and divisional level. On the group level it is essential to define just few strategic HR related KPIs that can measure the future success of the company. By doing that the value of human capital would also be recognized.</p>	
Keywords	BSC, HR, KPI, measurement, metrics, performance, productivity

Contents

1	Introduction	1
1.1	Reasons to choose HR related KPIs for master's thesis subject	1
1.2	The Case company	2
1.3	The background of the research problem	4
1.4	Research methodology	5
2	Framework	6
2.1	KPI measurement	6
2.1.1	Characteristics of effective KPIs by David Parmenter	7
2.1.2	Models where measurement is an essential part: EFQM	7
2.1.3	Models where measurement is an essential part: BSC	10
2.2	Literature review	14
2.2.1	Why chosen metrics matter, an article review of Stacey Barr	14
2.2.2	The Performance Pipeline by Stephen Drotter	16
2.2.3	Leadership – Clear direction and the power of the people by Matti Alahuhta	17
3	Current state analysis – the case company	19
3.1	Global brand values	19
3.2	Brand Mission and Strategy	21
3.3	GROWTH model and Performance Management Reviews	22
3.4	KPIs in the case company	22
3.4.1	HR KPIs and calculations where collected key metrics are utilized	22
3.4.2	Training KPIs	24
3.4.3	SWOT of present HR related KPIs	24
4	HR measurement in other retail companies	25
4.1	Kesko Oyj	26
4.1.1	Core business of Kesko	26
4.1.2	HR measurement in Kesko	27
4.2	Are	31
4.2.1	Core business of Are	31
4.2.2	HR measurement in Are	32
4.3	MetroAuto Group	37
4.3.1	Core business of MetroAuto Group	37
4.3.2	HR measurement in MetroAuto Group	38

5	Conclusions	39
5.1	What is possible to achieve with this study	40
5.2	HR related KPIs that measure sustainable efficiency and productivity in travel retail business	41
5.2.1	The most important HR related KPIs	43
5.2.2	HR related KPIs affect to each other and should be balanced	43
5.3	Recommendation for HR related KPIs in the case company	44
5.3.1	Group level	45
5.3.2	Divisional level	45
5.3.3	Local level	46
5.4	Opinions and thoughts about HR related KPIs and their meaning to company's success	47
	References	49
	Appendices	
	Appendix 1. Thematic interview – questions	

1 Introduction

The Author's interest to the theme of HR (Human Resources) related KPIs (Key Performance Indicators) grows from her own experience in retail in both operational and HR roles. The author has been working in three different retail companies during 26 years of which nearly 13 years in responsible HR management roles. The connection between employee engagement and company's economical success has been proven several times during these years.

Another viewpoint for the author's interest to HR related KPIs is why sometimes economically well performing companies may end up laying off their employees. That usually causes serious challenges to the employee engagement and may eventually affect also to the success of the company. At the same time there are usually grounds for those decisions. It is just that those grounds cannot always be seen at present or even in the near future, but may be essential part of the company's strategy for perpetuation.

Especially two idioms are guiding the author's way of thinking about business and especially service business. The first is "Well-being at work and the productivity go hand in hand". The second is "Lack of well-being at work is a business risk". These two idioms fit into any business environment. Those can and should be used to guide the actions, but there is variation to what extent. There are differences between domestic family owned company's culture and big global operator's culture. Some basic principles are still the same when it comes to people, the human resources of the company.

1.1 Reasons to choose HR related KPIs for master's thesis subject

The real core in the service business is people. That is why it is important to define which HR related KPIs matter the most. The aim of this master's thesis is to define, if only few indicators could be used to measure sustainable success and productivity of the company in retail business, what those should be.

Traditional HR metrics are for example HC (head count), FTE (full time equivalent), absenteeism (including mostly sick leaves), employee turnover and PEX (personnel expenses). Also training days and content of trainings are quite often measured.

Different employee surveys provide information about engagement and satisfaction to various aspects of own work, team work, leadership and employer in general. But what makes an ordinary metric so special that it should be called KPI which the whole company on every level should follow and understand.

Choosing the right set of KPIs is partly industry related. Retail in its all forms belongs to the service industry in the author's opinion. In the service industry people are providing services to other people. The end user or the final customer is eventually defining the company's value. The company's internal operations are chain of internal services provided to the next link in the chain. Also internally people are providing services to other people. Therefore HR related KPIs are important in defining which factors mostly affect to the company's success.

In the author's professional path, especially in HR manager roles in three very different companies, the importance of management accounting has become clear. Budgeting, cost accounting, pricing and financial reporting were introduced to the author in automobile industry eight years ago in HR manager role and management team member of the company. The very wise and experienced CEO at that time involved all management team members especially in budgeting and cost accounting because times were hard and everyone had to take responsibility of the whole company, not just the own area of expertise. Management accounting provides support material for decision making and therefore looks into the future rather than history. In the author's professional genre HR analytics has recently risen as a hot topic. Due to all these reasons this masters' thesis subject is interesting and up to date.

1.2 The case company

The case company is quite new in Finland. It is the Finnish subsidiary of global travel retail operator. The case company was grounded in November 2013 and it started operating at Helsinki Airport in the first quarter of 2014. At that time travel retail operations of the present airport operator were transferred through an acquisition to the case company. In the beginning business operations consisted of four duty-free stores.

In the beginning of the operations the case company had approximately 60 employees in own payroll mainly working in the stores or terminal warehouse. Additionally to the company's own staff there were nearly as much agency employees. Besides the core

business operations there were just a few local support functions: category management, finance and human resources. Supply chain and logistics operations relied on the structure that existed during the first acquisition. Later in the same year 2014 another acquisition was done. In that acquisition the airport located travel retail operations of an air-flight company were transferred to the case company, which then gained nearly 60 existing employees and two more existing stores.

Since the beginning of the case company's operations in spring 2014 the company has grown significantly. At the moment it consists of 11 stores, nearly 200 employees in own payroll and nearly 100 employees working through different agencies: rental workforce and suppliers' employees. The agency employees are working as sales associates in the stores and as warehouse co-workers in the terminal warehouse. The suppliers' employees are working as beauty advisors in the stores of the case company.

Since the beginning of the operations especially supply chain and logistics functions have evolved a great deal. In the autumn 2014 the company's own external warehouse started operating outside the airport in Western Vantaa. Until then the central warehouse functions in Southern Europe provided service and transportation of goods directly to the terminal warehouse at the Helsinki Airport.

The travel retail group, where the case company belongs to, has undertaken many business acquisitions and demergers along its history. The company became one global organization in 2011, when it was formed of leading European airport retailers. Just before the very latest merger the group had over 550 shops in 20 countries. The global business concepts are tailored to match the shopping profiles of hundreds of millions of passengers travelling through hundreds of locations.

In March 2015 a central European travel retail company bought the operations of the whole group where the case company belonged to. By this merger the new travel retail group is the world's leading travel retailer with almost one fourth of the global market share. The merger became official in the end of the year 2015. That is when the mandatory tender offer was finalized and the case company's parent company was delisted from stock exchange. Since then the case company has been part of the world's biggest global travel retail company, which operates in more than 60 countries and has approximately 30000 employees.

The new organizational structure, where also the case company is part of the world's biggest travel retail group, was launched the 1st of January 2016. There will still become changes in the business strategy, business operating models, organizational structures, IT systems and reporting in the near future. Some of the integration processes have already started. In HR operations the effect of the new owner can be seen for example in the monthly reporting of HR KPIs.

1.3 The background of the research problem

The research problem of HR KPIs can be divided into strategic, operative and tactical levels. The frequency of measuring can differ depending on the KPI and the meaning of it. It is also essential to be able to define which the actual KPIs are and which are just interesting metrics that also should be followed for operational reasons. One important aspect here is that KPIs should be defined by the top management of the company and those should have real strategic value. Instead of looking into the back mirror KPIs should help to predict the future.

The Business Problem is viewed through the five Golden Answers adapted from Senior Lecturer James Collins's lecture materials from autumn 2013. This model of defining the business problem seemed very clear and appropriate also for this theme.

In this case the five Golden Answers will be linked to the following themes.

- 1) The business issue is that in retail and other service businesses HR KPIs are generally acknowledged to be important, but their relation to other business KPIs and company's success may be vague. Quite often it can be heard that HR KPIs are named "soft" as purely economical KPIs are named "hard".
- 2) This is important because the impact of the issue is that human resources / manpower are often not seen as real asset to the company, even though every modern leader says so.
- 3) Given this, the objective of this study is to examine and reason which HR related KPIs are important indicating customer satisfaction, profitability and economical results and therefore also future success. Another objective is to try to change the company culture at least on the local level towards seeing human resources genuinely valuable and HR related KPIs "solid" instead of "soft".
- 4) The output of the study will be the list of most essential HR related KPIs that could be used locally and possibly also in a wider scope.

- 5) This helps the case company because measuring the right things and following relevant KPIs will help management to make better decisions to increase employee and customer satisfaction and engagement and at the same time to gain better efficiency and economical results.

It is interesting to reason why some HR KPIs are more strongly related to customer satisfaction, profitability and economical success than others. The goal of this master's thesis is to define such HR related KPIs that matter the most to the efficiency and profitability also in the long term.

1.4 Research methodology

The research methodology used in this masters' thesis is combining literature review and previous research of KPIs with the experience of other long-term HR professionals as well as the author's own experience.

The literature and other reference materials were chosen by using the key words HR KPI and KPI. With these keywords thousands of relevant and interesting references can be found in the public internet as well as in the databases to which all Metropolia students have access. The real difficulty is to choose the ones that are the most relevant. To limit the amount of references, all that were eventually chosen, are from well-known authors or were recommended to the author of this thesis. This reference data is presented in the second section, which handles the framework of the thesis subject.

The semi-structured interview was chosen as a method for the author's own research work. In that research the aim was to collect relevant qualitative data by interviewing some long-term HR professionals from different service industries. The intention was to gather deep information and insight to HR from few relevant interviews. Therefore all interviewees are on a high position in their own company and also belong to the management team.

In the guided open interviews (Easterby-Smith, etc., 2012: 127-128) that were kept in Finnish, the author had prepared a common list of questions (see attachment 1). As the interview went on, several extra open questions were presented. The interviews were then transcribed in Finnish and the memos were sent to the interviewees to be checked and approved.

The findings from these interviews are presented in chapter four, which can also be seen as the purely new content to the professional discussion of HR KPIs. The content of the interviews, which were transcribed, were then written in a more summarized way in English. Since the author saw these interviews to be perhaps the most interesting and fresh part of this study, as much of the original transcripts as possible, were handled in the final summaries.

2 Framework

2.1 KPI measurement

KPIs have been defined from the different angles and with different models during decades. There are some generally known models that will be presented in this context; EFQM (The European Foundation for Quality Management) and BSC (Balanced Scorecard). Those have become familiar to the author during the last nearly 17 years. During this time the author has been working in such work roles in three different companies that KPIs, the meaning of those and the possibilities to affect to and with those have become important to understand. Just before the first HR role the author had a possibility to get deep into business processes in development manager's role in a big Finnish department store chain. Category management, purchasing and marketing processes were redesigned to better meet the newly refreshed store concepts. In the same work role the author was involved in the strategic and action planning processes. Defining the right KPIs were essentially part of all these processes.

In financial accounting international, European and local legislations define the form of reporting for every fiscal year. In management accounting several metrics are followed daily, weekly, monthly or quarterly. Some of those are the same as in financial accounting, but there are also much more.

By Lecturer Tero Hujala (2016) the main differences between financial and management accounting are: Financial accounting is mandatory and the information is mainly for the use of external parties. Reports produced in financial accounting are such as the financial statement and tax reports. Management accounting is not mandatory and the reports are prepared for the internal use. Reports produced in management ac-

counting are such as budgeting, forecasts and analysis of the financial statements. Whereas financial accounting is looking to the past, management accounting is trying to look into the future. Therefore KPIs are essentially part of management accounting.

2.1.1 Characteristics of effective KPIs by David Parmenter

Following extensive analysis and discussions with over 3,000 participants in KPI workshops, covering most organization types in both public and private sectors, facilitator David Parmenter (2010) has defined seven characteristics of effective KPIs;

1. KPIs are non-financial measures therefore not expressed in any currency.
2. Usually KPIs are measured frequently, for example daily or weekly.
3. CEO and the senior management team are in charge of defining the company's KPIs
4. An effective KPI is simple and understandable for the whole staff. Everyone must be able to understand what actions can be done to correct the KPIs direction.
5. Responsibility to do the required actions is team-based, so that a team or several teams together can work on those actions,
6. KPIs do have a significant impact. Those affect on several of the organization's success factors and balanced scorecard perspective.
7. Effective KPIs have positive impact so that those encourage desired behavior.

All these could also be used in defining an effective strategy; clear, simple, guide people to act to the desired direction, motivate people to take accountability.

Parmenter's idea of measuring the KPIs very frequently is dependent on the nature of the KPI. Some things don't change overnight, such as people's feelings about different things. But exactly people's feelings provide engagement and through engagement change can happen.

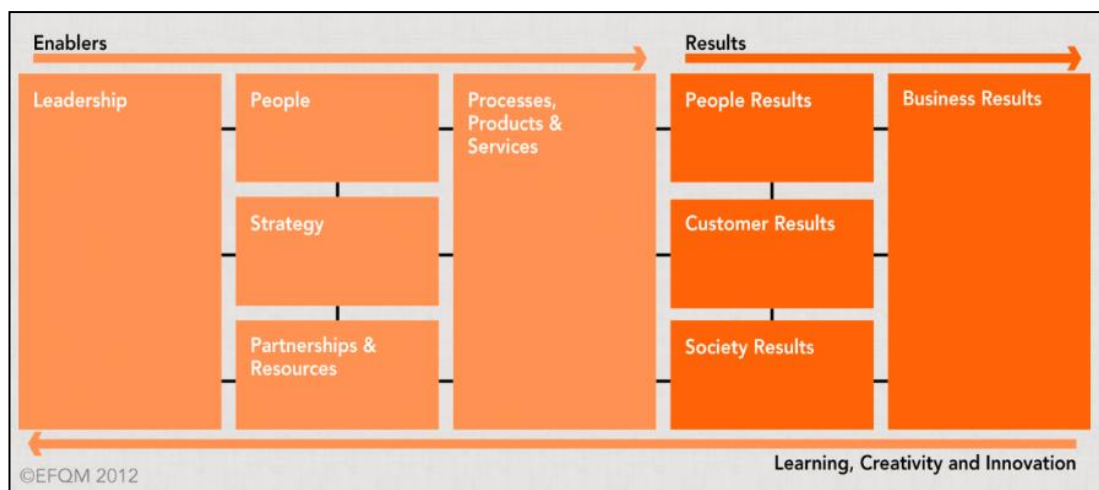
2.1.2 Models where measurement is an essential part: EFQM

EFQM is a quality management model used for developing organizations and their performance sustainably to enhance competitiveness. It is also an organization, the

European Foundation of Quality Management, which has given the name for the model.

The European Foundation for Quality Management, EFQM, was founded in 1989. Then a large group of CEOs or Presidents of 67 European companies declared their commitment to achieving EFQM mission “As a European Foundation, we inspire organisations to achieve sustainable excellence by engaging leaders to learn, share and innovate using the EFQM Excellence Model” and vision “A world striving for sustainable excellence”. (European Foundation of Quality Management, 1 and 2)

The EFQM model was originally built to fit in any industry or any size of organization. To support the model and increase interest to that the European Quality Award was established. The model itself is divided in two different areas: enablers (or processes) and results (see picture 1).



Picture 1. The EFQM model in action (European Foundation of Quality Management, 3)

For this study of HR related KPIs the people enablers and people results are the most interesting part of the EFQM model. The understanding of the author is, that in service industry it is people who actually make all the results. Therefore the people results should not be seen separate to any other results.

Regarding people enablers, EFQM states on their site that:

Excellent organisations value their people and create a culture that allows the mutually beneficial achievement of organisational and personal goals. They develop the capabilities of their people and promote fairness and equality. They care for, communicate, reward and recognise, in a way that motivates people,

builds commitment and enables them to use their skills and knowledge for the benefit of the organisation. (European Foundation of Quality Management, 4)

The EFQM models indicates that all the result areas should be seen in relation to the pier group those results are telling about. The needs and expectations of the customers, people, society including all relevant stakeholders and the business including business stakeholders define how well the organization actually meets or exceeds those needs and expectations. In excellent organizations all these areas are covered well. (European Foundation of Quality Management, 5 and 6)

In this study the people results of the EFQM model should be looked deeper into. People are important because motivated and satisfied people make the difference. People provide the skills and competencies and the creativity and motivation to keep the organization alive. People also provide the labor that is needed to produce whatever the organization is meant for and to implement the strategy. In the service industry that outcome can be products or services or both combined.

Unsatisfied people are not productive. Lack of commitment and motivation eat the results that could be achieved. The customers don't get the best service possible, errors occur more and usage of the resources is not optimized. To make things better the organization must listen to its people, how they feel, and track the behavior and performance of the people.

People results are affected by how the people are managed, how the strategy is implemented and how the processes of the organization are managed. All those influence how the employees feel and work. The measuring of the people results is essential and so is choosing the right measures.

Within the EFQM Excellence Model, measures are identified for two categories: the perception of people about the organization and the actual performance of the people. The motivation and satisfaction are the areas that should be measured to understand the perceptions. For the performance measures the list is longer. In EFQM model the performance of people is measured by engagement and involvement, target setting, competency and performance management, leadership performance, training and career development and internal communications. (European Foundation of Quality Management, 5 and 6)

The EFQM model gives recommendations to how to develop the organization into better direction. To gain better people results it is stated that targets must be set so that those are relevant and visible. The target level should be realistic but still not too easily achieved. The direction of the performance should be planned and managed so that long-term results can show the positive trend. In developing the people results three years is not a long time. It is also essential to benchmark the organization's processes and metrics. Inside a global company there are endless possibilities to internal benchmarking. (European Foundation of Quality Management, 4)

2.1.3 Models where measurement is an essential part: BSC

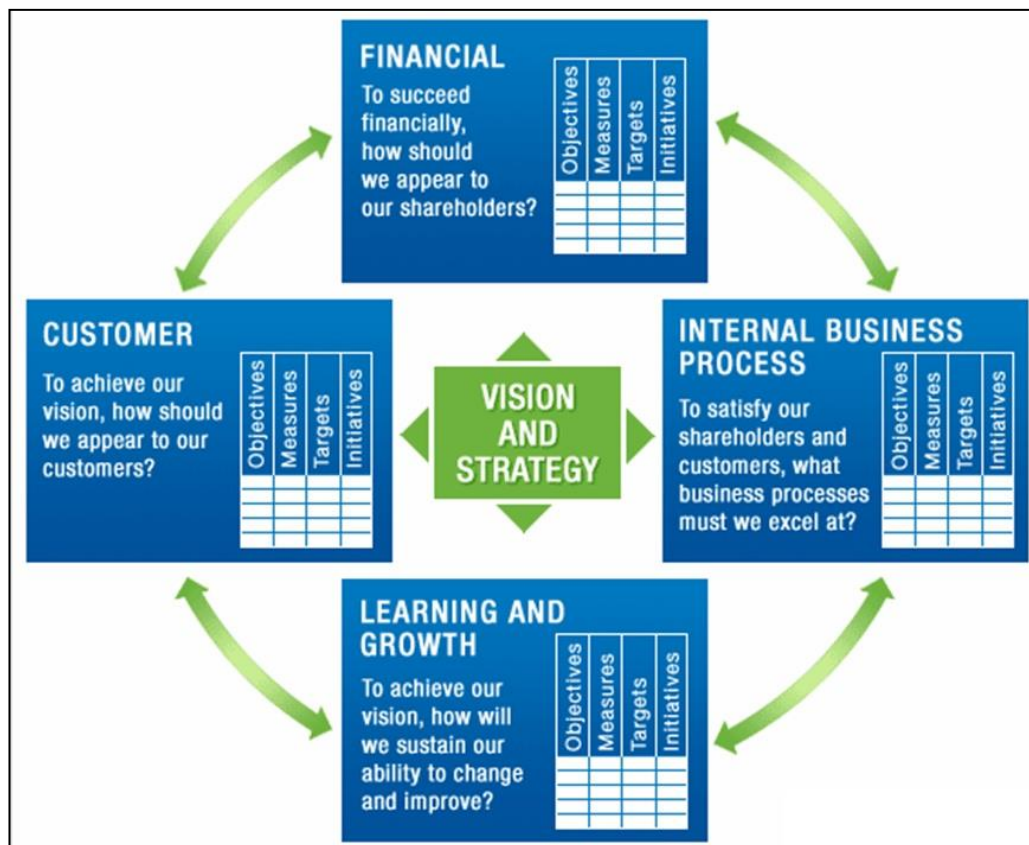
BSC, Balanced Score Card, is a strategic planning and management system, which was made popular by economists Kaplan and Norton in the 90's. It soon became a commonly used management tool for different organizations around the world, especially in the western economically wealthy countries. The BSI, Balanced Scorecard Institute, is an US based institute and strategy management group providing its services to private sector as well as public sector and non-profit organizations. BSI is concentrating on BSC ideology and KPIs are essential part of it. (BSI, 1)

Different organizational levels should follow KPIs that are related to each other. Every level has its own role in a complex business model and also KPIs should fit to those different roles. BSC considers four angles of performance in a clear way. Economical results are a result of customer satisfaction and loyalty. That depends on internal processes of the company and all is based on knowledge of the people and continuous development. To every corner of BSC can be found KPIs where HR has an important role (see picture 2).



Picture 2. The balanced scorecard management system. Adapted from Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996): 76. (BSI, 1)

The BSC structure and content are often drawn in quite a similar way by different authors. The model is easy to recognize from the different drawings. Here below is a picture of BSC drawn by Latin-American Yesid Araza Osorio, a lecturer and business consultant who has a wide aspect to the usage of BSC in the Latin-American business environments. In this presentation (see picture 3) the measures are firmly connected to each objective in every corner of the BSC.



Picture 3. The Balanced Scorecard model (Orozo, 2016)

Balanced Scorecard Institution, BSI, describes Key Performance Indicators or KPIs to be performance measures that indicate progress towards a desirable outcome. The strategy of the organization, implementation of the strategy and the possible gaps between actual and targeted performance are pointed out by strategic KPIs. Those also determine the operational efficiency of the organization. (BSI, 2)

By BSI some characteristics of good KPIs are

- Provide an objective way to see if strategy is working
- Offer a comparison that gauges the degree of performance change over time
- Focus employees' attention on what matters most to success
- Allow measurement of accomplishments, not just of the work that is performed
- Provide a common language for communication
- Help reduce intangible uncertainty
- Are valid, to ensure measurement of the right things
- Are verifiable, to ensure data collection accuracy

(BSI, 2)

At the same time KPIs are invaluable tools. Some clichés related to measurement are “What gets measured gets done” and “If you can’t measure it, you can neither manage it nor improve it”. That is very true. To be able to aim towards a desired outcome, you must know to which direction you should go and how high to reach. BSI acknowledges that at the same time, when most executives and managers admit the meaning and importance of KPIs, they also are asking questions like “How do I know which KPIs are really aligned with and meaningful for our company strategy?” or “How the KPIs can then be used to drive improvement?”.

BSI describes step by step, how good KPIs are developed in two separate steps: KPI development and performance analysis.

KPI development steps:

- Describe the intended result(s)
- Understand alternative measures
- Select the right measurement(s) for each goal/objective
- Define composite indicators as needed
- Set targets and thresholds
- Define and document selected performance measures

Performance analysis steps:

- Select the most appropriate automation tool
- Collect and monitor performance
- Analyze and draw conclusions
- Improve performance

(BSI, 2)

By following these steps BSI is convinced that it is possible to develop meaningful performance measures, find the real challenges and possible bottlenecks that need to be measured and therefore help management in its decision making by providing a comprehensive picture of performance of the organization. (BSI, 2)

2.2 Literature review

2.2.1 Why chosen metrics matter, an article review of Stacey Barr

In an article review the six different articles of Stacey Barr, an expert in business measurement, were explored. According to all those articles measuring is important in every kind of business. You need to know what your targets are, where you are supposed to go and what things you are supposed to change to get there. Measurement design is to be taken seriously, as only relevant measures can lead you to the right direction.

In the first article “*You didn't use brainstorming to select your measures, did you?*” Barr is looking into five different tools commonly used for measurement design. Those are brainstorming, benchmarking, using existing data or existing measures, measuring what stakeholders tell to measure and listening to experts of own industry (Barr 1, p.2). Pros and cons of every tool are considered. Barr doesn't seem to think that brainstorming is any good for measurement design, even though for many other, especially creativity intense business problems it could be (Barr 1, p.2).

Benchmarking gets better grades from Barr, but she claims that the uniqueness of the company and its business strategy can stay underestimated, if the measures are chosen through benchmarking (Barr 1, p.3). Using existing data or existing measures can the focus be too much on yesterday instead of the vision and tomorrows goals and needs (Barr 1, p.4). Different stakeholders have different interests and those don't necessarily go together with well performing business into right strategic direction (Barr 1, p.5). By listening to the industry experts, you can lead yourself to the direction those experts think is the right one. That may not be the best way to your own business (Barr 1, p.6).

In the end of the first article Barr introduces her own method for measurement design. That includes four steps, which are: 1. Start with the goal, objective or result you want to achieve, 2. Describe this result in a lot more detail explaining what you get from it, 3. List the potential things you could count or measure and 4. Choose the best ones, those don't need to be perfect. (Barr 1, p.6).

In the second article “*The business questions your performance measures should answer.*” Barr concentrates on how the measures will provide answers to the business

questions or problems. She also gives examples of excellent questions for business performance management. Those are such as Are we progressing towards our target and are there any unintended consequences of our actions? (Barr 2, p. 2-3). If we can answer to these questions with the chosen measures, then those cannot go badly wrong (Barr 2, p.4).

In the third article "*Are your decisions based on fact?*" Barr handles the importance of the facts based on the information behind the business decisions. Vague or non-specific claims, hearsay and opinions, logic leaps and the clichés shouldn't have place in the strategic decision making. (Barr 3, p. 2-4). By Barr "Challenging the dialogue of the decision process is simply about asking for evidence." (Barr 3, p.4).

In the fourth article "*Ten biggest mistakes in managing organizational performance.*" Barr presents which in her opinion are the ten biggest mistakes in managing organizational performance. Some of those are: using only financial measures, setting goals without ways to measure and monitor them, using poor methods for choosing measures, reporting performance in non-visual ways, not telling to the staff where the company is going by measures and using too much non-relevant data for the measuring. (Barr 4, p 2-4).

In the fifth article "*There's no such thing as the performance measure stork!*" Barr talks about the importance of making measurement alive. Even a hundred good measures don't mean anything if you don't use those. (Barr 5, p 2-5).

In the sixth article "*So you don't trust your data...*" Barr concentrates on the importance of integrity, relevancy, representation, reliability and clearness of data used in measures. If the management doesn't believe in the results of their chosen measures, neither will anybody else. (Barr 6, p. 2-4).

In these six articles Barr has very well pointed out both the importance and the risks of the measurement design. Choosing metrics on the different levels of organization, for different processes and operations, is an essential part of a company's strategic planning process. Measures and data collection methods deserve a lot of time in this process. Experts can be used to help to develop right kind of measurement needed for the company's success, but the management needs to be well aware of what should be achieved with this consultation. The consultants cannot lead the orchestra.

With all the six articles Barr demonstrates that designing measures needs systematic approach that takes into consideration the uniqueness of the company's industry and its own unique strategy. The process of designing measures must produce measures that will take the organization toward its vision and guide personnel as well as management to proceed on the chosen steps of bringing strategy alive. The big picture needs to be considered so that measures don't lead the decision makers wrong. There are many good methods for designing measurement and Barr is skillfully presenting how those methods can be selected.

2.2.2 The Performance Pipeline by Stephen Drotter

"The Performance pipeline. Setting the right performance at every level of leadership", is written by Stephen Drotter. He is the CEO of Drotter Human Resources, a global company specialized, amongst other things, in enterprise level organization design and executive assessment. In his book Mr. Drotter describes how the performance pipeline should be built up in an organization for it to work efficiently and clearly.

Too often the company's CEO is involved in something that actually belongs to her/his senior management team members to solve. Or a team leader is trying to do all by her or himself and he or she doesn't delegate the tasks effectively to the team members. That is a waste of skilful people's time as well as the organization's resources.

The Performance Pipeline Concept is described in the book's pages 9 – 12.

The main idea of the concept is that everyone in the organization should work at the right level. Every level of the organization has its own purpose and if it doesn't that level should be removed. Every level also creates results and on the other hand helps the lower level to succeed. All of the levels must be connected to each other. There should not be gaps or overlaps between the different levels of the organization.

Although Drotter doesn't write much about measuring nor KPIs, those are centrally a part of an efficient performance pipeline. Once the metrics are well chosen, the leaders or managers on the next level of the organization don't need to get involved in the tasks of the lower levels. If they usually do it, it's because they need to ensure that the required performance is obtained. Through the right KPIs this information is passed to the next level without active involvement in the daily operations.

On the higher levels of the organization the decisions are strategic and so should be the KPIs. The lower you go on the levels, the more tactical and operational roles those have and the more tactical and operational also the metrics must be.

Table 1. Performance and Leadership Pipeline layers, adapted from Drotter p. 9 - 13.

Performance Pipeline layer	Scope of the layer	Key terminology	Leadership Pipeline layer
Highest	Long term viability and success of the enterprise Corporate strategic framework	Perpetuation Vision, mission, values Direction for the future	Enterprise Manager
Second	Long term fit and viability of current business In the right an out of the wrong business	Portfolio Portfolio strategy Investment and succession plans	Group Manager
Third	Produce business strategy and deliver short-term and long term profit based on it	Profit Business strategy, Team work	Business Manager
Fourth	Appropriate functional capability (people, methods, partnerships) to fulfill business strategy	Competitive advantage	Function Manager
Fifth	Deliver productivity, trained management, information flow	Productivity Action planning and resourcing Standards	Manager of Managers
Sixth	Deliver clear roles, trained people, feedback and coaching	Enabling Job descriptions	Manager of Others
Ground	Delivery of the designs, products, services, etc. by the individuals	Delivery Individual contribution	Self-Manager

Drotter recommends organizations to set performance standards on every level of the organization and to connect KPIs and other measurement to these internal standards (p. 249).

2.2.3 Leadership – Clear direction and the power of the people by Matti Alahuhta

Matti Alahuhta, well known and respected Finnish business director, tells in his recently published book “Johtajuus – Kirkas suunta ja ihmisten voima” about leadership, how his own leadership principles have developed and how he has created success with his teams at Nokia and at Kone. Mr. Alahuhta has proven track record through the success of the companies he has lead. It shows that those principles actually work.

In the chapter “Basic leadership principles”, Alahuhta describes his five principles to be

- 1) Clear vision and objectives
- 2) Transparency and straightness
- 3) Focus
- 4) Simplicity
- 5) Right timing

Vision should be created for long term. It should create enthusiasm and be clear. Good vision also defines the company's core business and gives meaning to everything and everyone working for the company. Clear vision enhances stability even when the external factors are unstable. It prevents hasty decisions that might lead to wrong direction. (Alahuhta, p. 121-122)

Transparency and straightness prevent gossips and rumors and help everyone to keep on the right track and to concentrate on what is essential. Top management need to show by its own example that these are real values. Those who bring the bad news and disagree must also be listened and not judged. The company's leaders must show the way also to those employees. (Alahuhta, p.122-123)

To Alahuhta focus means the business core but also the high quality of work. What is chosen to be done must be done well. Core business areas and competencies must be well taken care of, but those that don't belong to the core, could often be outsourced to the best business partners. In integrations the focus is sometimes lost and too much concentration on the new or not so important areas may cause disruptions to the core business (Alahuhta, p.123).

Simplicity is a good instruction to everything in the company starting from the vision. Strategy defines how vision will be reached and business plans or action plans are those actual steps that need to be taken to implement the strategy. Those need to be described so simply that everyone can understand their own role and responsibility. Communication is always challenging, but "keep it simple" works also there. (Alahuhta, p.124).

Right timing is also essential and differentiates the winners from the losers. Sometimes this means taking the risk but being the first. Sometimes that can mean timely processes both internally and with external business partners. Internal agility is also essential in being able to adjust to fast changes that occur. (Alahuhta, p. 124-125)

Alahuhta writes also about the importance of the speed in measuring. He states that the measuring cycle has an important effect on the productivity and results of the company. Often the company's metrics are measured monthly, but for several metrics measuring is done weekly or even daily. Alahuhta says that this cycle can and should vary depending on the development. Once KPI starts to show undesired results the cycle should be shortened (Alahuhta, p.p 177-178).

By Alahuhta short term measurement is always needed, but another important view for measuring is long-term. That is heading to the vision of the company. Quarterly published financial statements are often being judged as short-sighted. Then again, those encourage the top management to stay agile and react, if needed, even when making really big decisions that affect to the company's future in the long-term. Alahuhta says that the measuring cycle is not to blame if sometimes the decisions that are made prove later to be wrong. (Alahuhta, p.179).

At Kone there were five strategic areas that were constantly measured and the aim was to get better all the time: customer satisfaction, employee satisfaction, faster growth than in the general market, keeping financial results on better level than the main competitors and strong development in sustainability. These areas were frequently measured and immediate actions were taken if metrics showed any undesired development (Alahuhta, p.180-181).

3 Current state analysis – the case company

3.1 Global brand values

The vision is not separately defined in the case company, but the values have been redefined on the group level in the end of 2015. After two large mergers it was important to create common values that represent all operations in all continents and drive actions and communication throughout the group.

The common values of the whole group are: Focused, Global, Solid and Delivery. It is stated in the internal training materials that the brand values are the company's DNA that all employees together bring to life for all audiences, meaning customers and other stakeholders. The brand values are behind all action and communication.

The first value is *Focused*. That is described by being an expert retailer, leader in converting travelers into customers in a matter of minutes. The company (here the company is meaning the whole group) also claims to understand its customers. The way of doing business is stated to be absolutely customer-centric and focused on travelers. It is stated that the company's fully integrated systems that optimize synergies and empower performance increase the capacity to deliver to the customers. They are mainly travelers.

The second value is *Global*. The company is large and it is operating across the world. It is the world's biggest travel retailer operating in five continents throughout more than two thousand stores. That is why also all of the brand partners get wide industry network through the company. The global business operating model is built on three levels: global, divisional and local. The understanding of different cultures and special knowledge of the market at the local level are expected to add value to the global model.

The third value is *Delivery*. That means delivering solid financial performance for the shareholders. The company wants to be a solid and successful enterprise characterized by consistent delivery to landlords (usually airport operators), customers and shareholders. The leadership in the company is based on the business operating model and capabilities to innovate and execute.

The fourth value is *Solid*. The company brand has long-term heritage: stability, solvency, quality and attention to detail. This heritage and newly defined values together are believed to bring benefit to the company's brand. In the company's web pages it is stated that:

Employees benefit from real opportunities for personal and professional growth, shareholders can depend upon consistent performance and value delivery, suppliers can count on a consistent and reliable guarantee in fulfilling partnership agreements, airports and landlords benefit from the solid expertise and solvency of the category leader.

From this reference it can be seen that Solid stands for being trustworthy towards every stakeholder.

These redefined group values may have had an effect also to the company's KPIs, but not necessarily very much, since the company's long heritage is brought up frequently on different discussions. As if the top management of the company wanted to say, "We had all this. Now we just rephrased it to sound fresh and to fit all of us".

3.2 Brand Mission and Strategy

The brand mission, an essential part of the company's (here again company is meaning the whole group) strategy, has been defined as "To sustain our position as the world's most solid and expert travel retail partner with the unparalleled power to deliver."

The brand mission sounds strong but a bit cold. Perhaps customers and employees are hidden into that sentence, but it is very structure and execution oriented. On the other hand it thus just repeats the company values, which say that the leadership is based on the business operating model and capabilities to innovate and execute.

The company's strategy is "to grow profitably by operating our own shops in travel retail globally with a portfolio diversified by geographies, sectors and channels". The present market share has been accomplished through a combination of organic growth and acquisitions.

The company aims to offer retail excellence for customers and other stakeholders. The growing number of worldwide travelers is the key driver for growth in this industry. Geographic diversification is also an important part of the strategy. After large mergers in the recent years the priority is now organic and especially profitable growth. Besides duty-free also duty-paid business is seen as a potential business area that may grow in the future.

Industry specialists expect the trend of growing passenger numbers to continue. That provides good and solid fundamentals for growth in general in travel retail business. The company's strategic objective is to benefit from the market growth and continue as the industry leader. By the strategy this will be achieved by excellence in execution and driving change in the way the travel retail industry operates.

3.3 GROWTH model and Performance Management Reviews

In the case company the competency framework is called GROWTH and its aim is to develop talent in order to support growth strategy. The framework consists of

- Global mindset
- Results focus
- Ownership and accountability
- Winning customers
- Teamwork and
- Having impact and being innovative

Performance management review is a tool for a yearly process where everyone down to certain level in the organization gets their personal objectives which are then also measured.

3.4 KPIs in the case company

In the case company KPIs are reported monthly to the division and from there to the headquarters. The KPIs in general are very traditional. One big challenge in creating meaningful KPI set throughout the company is certainly the global business.

From the country level the information gathered monthly by the finance department includes

- Profit and Loss statement (all different expenses included there),
- FTE (Full time equivalent) divided in different personnel groups and
- Sales area (m2), which is quite stable unless there are big renovations in some location.

The actual KPIs are then calculated through these metrics.

3.4.1 HR KPIs and calculations where collected key metrics are utilized

Present HR KPIs and other HR reporting are done monthly. The collected data includes

- HC (head count)
- FTE (full time equivalent)

- Leavers (voluntary/involuntary/end of temporary contract)
- Personnel costs
- HC new employees
- Absenteeism (sick leaves and non-admitted absences)

The financial calculations, which are presented as periodic and year to date results, include

- Net sales vs. budget : € and %
- Personnel expenses vs. budget : € and %
- Personnel expenses vs. net sales : € and %
- FTE vs. Budget
- Net sales / FTE: €
- Personnel expenses / FTE €
- Square meter / FTE €

The operative calculations, which are presented as periodic and year to date results, include

- Employee absenteeism: hours and %
- Voluntary leavers excluding seasonal employees %
- Voluntary leavers of seasonal employees %
- Total voluntary leavers %
- Involuntary leavers excluding seasonal employees %
- Involuntary leavers of seasonal employees %
- Total involuntary leavers %
- Total leavers excluding seasonal employees %
- Total leavers of seasonal employees %
- Agency contractors leavers %
- Total leavers %
- New hire %

The list of collected data is long and the usage of this information is not always clear to the local operators. Collecting and reporting all the required data in the case company is time consuming and due to certain factors it is still partly manual. That should though change for the better, once one collective agreement soon finishes and all employees can be transferred to the same payroll database.

3.4.2 Training KPIs

Training KPIs are also gathered monthly, including

- head count total by department
- head count newly recruited by department
- how many newly recruited have participated to different internal training programmes
- how many total have participated to different internal training programmes
- how many total have participated to different external trainings (f.e. brand trainings)

Training KPIs should rather be called just training metrics. These are not predictive, but merely look into the back mirror and report what courses have been kept. As training KPIs it might be more interesting to measure what kind of knowledge or trainings we would need and how big is the gap between the need and the competencies that employees have.

3.4.3 SWOT of present HR related KPIs

The present metrics in the case company can be evaluated by SWOT, as illustrated in the figure 4. That helps to find out the development needs and possibilities of the KPIs or the metrics that are currently called as such.

On this SWOT of HR related KPIs

- Strengths demonstrate the good in the present KPIs.
- Weaknesses show what things related to KPIs should be developed
- Opportunities tell about the possibilities how KPI measurement could be developed for the better
- Threats show some future risks, which could be avoided when those are recognized.

STRENGTHS	OPPORTUNITIES
<p>Data collection is unanimous and spread through all operations the same way</p> <p>Metrics that are named as HR KPIs are easy to understand</p> <p>Reporting lines are clear at the moment</p>	<p>Possibility to define such HR related KPIs that are independent of location</p> <p>Easy to understand metrics can guide actions into the right direction</p> <p>Real KPIs can be defined to group, division and local level, 1 - 2 metrics that run through the organization would be enough</p> <p>Global HRIS</p> <p>Defining target levels considering local conditions > more clarity to measuring and what are the objectives based on measuring</p> <p>Engagement KPI taken into frequent use</p> <p>Comparing locations with high economical results and employee engagement can reveal great internal benchmarking sights</p>
WEAKNESSES	THREATS
<p>Too many KPIs >> some of those could be named just as metrics</p> <p>Collecting data is time consuming</p> <p>Local conditions (legal, collective agreements) are very different</p> <p>Much manual phases</p> <p>Target levels are not defined (or at least not shared to locations)</p> <p>No KPIs related to employee satisfaction</p>	<p>The core KPIs can be lost</p> <p>Time can be used more for measuring that acting based on the measures</p> <p>On the division or group level decisions can be made without considering the local conditions</p> <p>Data collation may be inaccurate</p> <p>Not possible to know what is considered "good enough"</p> <p>Lack of well-being at work is business risk</p>

Figure 4. SWOT of the current HR KPIs in the case company

This SWOT shows that at the moment there are more weaknesses than strengths, but luckily quite many present weaknesses can be turned into opportunities.

4 HR measurement in other retail companies

This chapter presents some other retail companies, the viewpoint being how HR related measurement is done in those companies or in general how the KPIs are chosen.

4.1 Kesko Oyj

4.1.1 Core business of Kesko

Kesko homepage tells that Kesko is a Finnish listed trading sector company. Kesko's shares are listed on Nasdaq Helsinki. The company's domicile and main premises are also in Helsinki. (Kesko, 1)

Kesko and K-retailers together form the K-Group. In 2015 the retail sales of K-Group totalled about €11 billion (VAT 0%). The K-Group employs around 40,000 people. In addition to Finland Kesko operates in Belarus, Estonia, Latvia, Lithuania, Norway, Russia and Sweden. Kesko has over 1,500 stores. (Kesko, 1)

Kesko operates widely on the trading sectors of grocery, home improvement, specialty goods and cars. Retail entrepreneurship and other cooperation partnerships are essential in Kesko's business operating model in all its divisions and chains. (Kesko, 1)

By the latest news Kesko is building a new K-Group main office in Kalasatama Helsinki. The new head office and the related operations in the same area are called K-kampus. (Kesko, 4). Kesko also has announced recently that it will strongly develop its digital services by investing into an international development team. The benefits of digitalization will show to their customers through the customer loyalty programme Plussa (Kesko, 3).

Kesko's Values, Vision and Mission are

- Value: Customer and quality – in everything we do
- Vision: We are the customer's choice and the quality leader in the European trading sector.
- Mission: We create welfare responsibly for all our stakeholders and the whole society. (Kesko, 2)

Kesko defines its core competence areas to be

- Development and management of store concepts and brands
- Combining retailer entrepreneurship and chain operations efficiently
- International retail expertise
- Multi-channel retailing
- Cost-efficient and responsible business models

- Development and management of the store site network (Kesko, 1)

4.1.2 HR measurement in Kesko

By Kesko's HR director in Common operations & HR services Mikko Myyryläinen, an old saying "You get what you measure" tells why measuring is important. As important is to find the balance between the amount and the accuracy of the metrics. If there are not enough metrics, there is risk that important things are not measured at all. If there are too many metrics, then measuring and analyzing the results take much resources and the actual meaning of the metrics can disappear. The reliability of the metrics is also important; is the data accurate and right and what do the metrics actually tell.

Besides the actual metrics, measuring affects to the company's operations. The focus stays on those things that are measured. Even if the metric itself is not exactly correct, it still keeps the matter on hand actively in the discussions and meeting tables. The main idea in measuring is the goal and the will to get there, by measuring you check every now and then if the direction is correct.

Myyryläinen thinks that a good KPI is well connected to the operations of the organization and implementation of the strategy. A good KPI measures things that are relevant and interesting concerning to the operations and the strategy. Especially the strategic KPIs should be such that the connection to the company's strategy is very clear. There is a risk that sometimes HR related KPIs can be too disconnected from the business strategy.

Operative metrics can be thought differently, for example in the in-house services the metrics have a different role. For example the service function itself can be measured by its efficiency, quality, customer service and flawlessness. All those are relevant internal KPIs that help to develop the services and enhance their performance.

As general HR KPIs, Myyryläinen classifies metrics that are connected to economic results. Such KPIs are personnel expenses ratio of sales (%), personnel expenses ratio of gross profit (%), sales / FTE (€). If only few KPIs should be chosen, those should be such relative indicators connected to the company's economic success.

Instead of head count (HC), Kesko uses FTE as a KPI, which can be connected to economic indicators. Also, if some business unit has a saving target, it is usually told as FTE. In personnel costs FTE is though an inadequate metric. For example when transfers are considered between the units or inside the unit between the cost lines, it must be understood that different FTEs may have different cost. For example outsourced FTE is usually in the long run more expensive than FTE in own payroll.

When expanding the view of HR KPIs, also employee and customer satisfaction come into the picture. Both of those are relevant HR metrics but neither one does directly indicate the performance level. It can be said that for example sick leaves and their costs, employee turnover, performance evaluation results are also obvious HR metrics.

Myryläinen says that quite often FTE seems to be thought as direct efficiency metric in HR. That is not exactly right. You must consider all affects or you may easily part-optimize. For example, if personnel expenses are under the loop, own staff is easily redundant but at the same time consultation or agency costs are growing. Some believe that own staff is more expensive than external staff in taking care of different tasks in the organization. The fact is that personnel expenses are often quite solid and it takes time to affect to those for example through cooperation negotiations. It is easier to reduce the amount of agency employees than employees in own payroll. Still on the long run external workforce usually is more expensive.

Currently Kesko is having interesting conversations with its partners about the reasonable limits concerning usage of agency employees. What are the turnover and weekly contract hour limits that would draw the line between using own or agency employees? Can such lines be drawn so that the efficiency and cost level before and after those lines would clearly change? At the moment it seems that 10 – 15 hours/week contracts are such that it might be more efficient to keep those for the agency employees. This requires that the agency is taking responsibility of induction process of their employees and that the internal turnover is quite high.

Dividing HR KPIs to strategic and operative levels depends of the organization and its business area. For example at Kesko Group level it is essential to follow PEX related to sales and gross profit. In the HR service center it is more essential to follow lean times, volume, quality, flawlessness etc. But of course also in HR service center it is essential to understand the upper level KPIs.

The organization should in its different parts have such metrics that help to understand the goals and speak the same language. On the group level, industry level and company level part of the KPIs must be the same. On the other hand to one business unit or department the essential KPI can be something totally different than is followed on the group level.

By Myyryläinen the Balanced Score Card, which was used some years ago in Kesko, is no longer in use. In the present matrix organization the question it is more about every business unit director being responsible of his or her own unit and its efficiency, profitability and the results from the beginning to the end. The mostly clear change in measuring has been in economic metrics. Earlier both employee and customer satisfaction were as important as economic results, but these days the economical KPIs are priority one. HR is merely included in those as cost through PEX, which is presented as a relative figure related to the sales or to the gross profit.

Employee satisfaction or employee engagement is not seen as a KPI, but also those are followed. Employee satisfaction, the factors affecting to it and the effects it has on business are their own important entity. In Kesko both are followed regularly and any undesired changes are quickly reacted to. There are several tools in use for the managers to react and act in a proper way. Managers still have their personal employee engagement results as part of their bonus system. In 2015 a group-wide employee survey was not done, but in 2016 it will be.

The new CEO of Kesko, Mikko Helander, talks a lot about one value and operating principles. This one common value is "Customer and quality – in everything we do". Kesko's vision is to be the customer's choice and the quality leader in the European trading sector. The operating principles are "I put myself into the game, I talk with appreciation, I trust people, I show clear direction". Every employee in K-group must act by these principles. "Kesko Way" is summarizing the identity of being part of the Kesko group and belonging to the Kesko family. Many successful companies have a strong identity and also Kesko wants to be more unanimous and more focused. During employee survey 2016 also the realization of these principles will be measured. Last autumn a short survey was done regarding these principles. The average result of how well these principles work in practice was 70 – 75%. That can be considered quite good, since the principles had recently been defined.

Myyryläinen does remember the Anttila and K-Citymarket research about employee satisfaction and the “work satisfaction index” which was developed through the research. In this index were included those five employee satisfaction survey questions that correlated the most with the store’s economical results. For some reason the research was not actively utilized in Kesko and the original survey is no longer available in group HR.

Myyryläinen doesn’t see the need to divide HR KPIs to hard and soft ones. He says it feels artificial. When HR professionals talk together about KPIs, such division is usually not even mentioned so it is not a problem. For example the effect of employee satisfactions and engagement to the company’s results is acknowledged and understood. In understand this Kesko’s senior managers and directors in general have gone clearly forward. For example in HR Tech conference in January, Sir Richard Branson stated that “I am not interested in customer satisfaction, but employee satisfaction. The side effect of motivated and engaged employees is customer satisfaction.” Retail is employee and people business.

Myyryläinen emphasizes that when HR specialists mostly work with development areas, different kind of divisions may get too much attention; for example are we talking about the values or not, which are hard and which are soft matters, etc.

In the opinion of Myyryläinen the everyday roles of managers and employees are on healthy base in Kesko. Supervisors’ or managers’ role as the employer’s representative seems to be very clear. Managers have been instructed to talk about values in their own business unit or department. It is very tangible, how the values are brought to life in everyday business operations. Also Kesko’s management training has been renewed to support implementing these operating principles. Besides this, CEO Helander brings up Kesko’s values and operating principles regularly. Those are the leading themes in his presentations. It is easy to see and feel that he is personally 100% behind those.

Myyryläinen points out that all measurement in the organization should be based on the organization’s operations. HR related KPIs cannot be outside of or irrelevant to the internal customers. And once the strategic KPIs are in the core of the business, also senior management of the company really wants to follow these metrics and see the results. In Kesko different functions have their own KPI entities. For example, Occupational Health and Safety function has proceeded well also in managing the risks and

planning the actions related to these issues through measuring the operations systematically. For example sick leaves are constantly followed and if the “lights go red” certain agreed actions follow instantly. This is a good example of a matter where HR and business operations have a big common interest. Sick leaves are increasing personnel costs and effecting directly to the economic results. At the same time those are often indicating something that HR should look into a little deeper.

In Kesko inside HR functions some metrics to develop internal operations are: employment relationship cases, EUR used for rewarding, costs if internal operation, internal customer satisfaction, employee engagement, flawlessness. These are partly on the tactical level, for example certain HR expertise areas need such metrics to develop its own operations to ensure the quality and efficiency of this specific in-house service.

Myyryläinen tells that at the moment inside K group there are big discussions about Kesko-level total salaries. HR and Finance are together seeking for ways to develop relevant metrics and reporting. In Kesko PEX is the biggest fixed cost so it is extremely interesting. In the near future there may be more metrics connected to sales and gross profit.

Myyryläinen stresses that it is essential that also HR related KPIs are in the core of the business itself. That way the metrics itself and what those tell about is easy to understand. Such metrics can really guide the operations to the desired direction.

4.2 Are

4.2.1 Core business of Are

Are is Finland’s largest building services company that is offering life-cycle building services contracting and property maintenance services. Those ensure that customers have energy-efficient premises and pleasant indoor conditions. (Are homepages, 2)

Are Group was founded over 100 years ago and employs approximately 2,900 people all over Finland and also in St Petersburg, Russia. (Are homepages, 1)

Services of Are include building services, contracting, maintenance services, expert services and systems and technologies (Are, 2). In Are the operations are built on highly competent employees and their well-being. Are also encourages its employees to further develop their professional skills and takes good care of their well-being (Are 2).

4.2.2 HR measurement in Are

Sari Kulmala, Senior Vice President of HR and Communication at Are Group, thinks that measuring is important from two different angles. Metrics tell the management where the company is at the moment. Even more important though is to see to the future. Well-chosen KPIs can predict the future performance and therefore success of the company. When such KPI starts to move into wrong direction that predicts problems and should give management a strong signal of needed actions. If correcting actions are not done, in time that will show also in the company's results.

Kulmala tells that the best KPIs tell about the present and indicate the future. In senior management team of Are much time is spent to go through the results. There are two schools of thought in Are's senior management team. One thinks it is relevant to concentrate on the past economic results and another thinks it's already history and the priority should be in such results that indicate where the company is going. HR related KPIs need to be somehow connected to real economic effects. It is important that those can eventually be calculated in monetary value.

In Are, an example of good strategic KPI that is also reported to the board of directors, is the frequency of accidents at work. This KPI indicates several different things. At first the accidents itself, which are important as is and at worst human tragedy and cause direct costs. Most of Are's customers want to know, what is the frequency of work accidents. That is often asked already in request for offer of the services. For Are's customers this tells about the company's operational quality: induction process, general view for occupational health and safety issues, process management, internal control mechanisms, the quality of supervisory work and the quality of the company's management. These all effect to the image of Are as responsible company in building services industry. Especially some big customers, such as Senaatti-Kiinteistöt or Teknopolis need to maintain their own image as well and to have responsible partners to do so. If in Are this essential KPI would be high that might hurt also their customer's image of safety and reliability.

Some of Are's customers have also extremely high internal safety standards. They cannot accept any partner with whom there might be even the smallest suspicion that everything was not properly taken care of and with as high quality as the customer does. The idea behind this is that if occupational safety issues are not well taken care of, there must be also difficulties in the management of the department/unit and therefore also many other matters might not be on the right track.

The direct costs related to this KPI, frequency of work accidents, are the costs of absenteeism and the insurance costs. Those are especially high in serious accidents, where the absenteeism lasts long and the outcome may be permanent loss of work ability. The indirect costs are disturbance in the workplace and shortage of the resources. The more serious the accident is, the longer the sick leave is and the employee must be replaced somehow. The whole industry needs much workforce and therefore the cost of one sick leave day is high. As the average cost of sick leave day Are uses 350 €, the average calculated by EK, the Confederation of Finnish Industries. That is actually a little low for Are, even though it does cover both direct and indirect costs.

In Are the sick leave reporting is done in two different ways. The official reporting is done by EK model, which doesn't include sick leaves caused by work accidents. The other internally used reporting includes also sick leaves due to accident at work. Additional to this is the reporting about sick leaves due to musculoskeletal health problems (shoulders, knees, etc). Most of the employees in Are have heavy physical work. One of Are's HR metrics is musculoskeletal diagnosed sick leaves, days/employee. That indicates possible early pensions in the future. Those are extremely expensive to the employer, since those affect to the payment class of the pensions in the future years. The bigger the employer is, the more the company carries this risk. Are is big also in this sense.

Kulmala tells that in the management team the followed metrics concerning sick leaves are sick leave rate (%) and the total calculated cost of sick leaves (days*350 €/day). In this industry it is typical to follow such metrics that are related to occupational safety, work ability and sick leaves. Those also predict the future costs, tell about the quality of the management and about how the well-being of the employees is taken care off.

The cost view is also strongly part of this. Half of the increasing insurance costs that are caused by the work accidents are taken to the business unit level. Currently the future effect to pension costs due to loss of work ability and early pension is not divided to the business units but is handled on the corporate level. Despite of the internal training that is given to the managers about this matter, the costs of the long term effects of losing work ability has still remained unclear to most of the managers in charge of the business units.

During the last few years Are has done deep and systematic cooperation with the occupational health services provider Terveystalo to find those individuals who are in risk of losing work ability and getting into early pension. Every such employee gets individual action plan to try to prevent that. This has demanded a lot of work from HR and occupational health in terms of contacting all these individuals and providing personal consultation for them. Also managers have been involved in this work. Supervisor-subordinate discussions and also tripartite discussions are now in active use and the process seems to be working. Some years ago HR might have gotten a phone call from an employee having been two years in sick leave and asking who might be the manager, since he or she was thinking of coming back to work. Now this doesn't happen anymore. The company knows everyone's individual situation and line manager.

In Are's industry typical metrics are such efficiency metrics that tell about present;

- technicians HC / clerks HC
- PEX / revenue (this is used in the maintenance services)
- yearly turnover (how many permanent employees have left at own will)

There are several different HR related metrics used in Are, but those are not specifically defined as HR KPIs. The need for HR metrics rise from the business units. What needs to be developed must also be measured.

At the moment in Are the cooperation with occupational health provider is under the loop. The occupational health costs are really high and therefore management of these costs is essentially management of personnel costs. It must be ensured that occupational health works as agreed in the action plan. Are has recently taken additional health care insurance for all staff. Illnesses affecting to work-ability are prioritized and with the help of this insurance for example those technicians who have been waiting for long to get MRI on the public health care, can get it faster and after that also proper treatment, for example an operation. This way the critical workforce can get well and

return to work earlier. Already during this short period of time several mechanics have been able to return to work and also sick leave rates have gotten significantly lower in short time.

Kulmala tells that BSC (Balanced Score Card) is not used in Are. In Lemminkäinen, which became part of ARE in the latest acquisition, it was in use. Some employees also in the management, who were transferred from Lemminkäinen, wish to get it also to Are, but at the moment there are no such plans. Currently there is also no other model that were planned to be used as a framework for measurement in Are. EFQM quality model and its metrics are though close to the present needs. There are several other areas than just people results in EFQM that are currently measured in Are. The objectives and operations are monitored by business unit and by department. Such metrics are chosen with which the management thinks the objectives can be reached.

Kulmala says that many strategic metrics are such that can be really updated only once a year, such as employee turnover, employee engagement and pension payment class. In Kulmala's opinion strategic metrics are usually such that it takes time, patience and lot of work to effect to those in the desired way. Whenever quick and big changes are needed, for example outsourcing may be an action of that size, which would have the needed effect.

In Are the employee engagement is measured by large survey every other year through four factors: own work, leadership and management, operation of own unit/department and operation of the whole company. The most important questions in Kulmala's opinion are related to development and engagement. This way of measuring employee engagement is heavy end requires much resources to implement the survey and to handle the results.

In the near future the plan is to be more "on the pulse" and ask once a year a short version, where such 1 – 5 questions are asked that can measure the engagement of the employees. At the moment the employee engagement metrics are not related to the bonus system of managers and supervisors. Kulmala tells that Are is looking for ways to include also that aspect of the business unit level to managers' bonus system. Kulmala states that she is a "believer of line management work". In her opinion the questions that are measuring the quality of that work are essential indicators of the

success of the business unit. She thinks that transparency in measuring the quality of the line manager work is important.

“During the old Are one extremely important HR related KPI was Are attitude”, Kulmala says. The whole staff got quarterly SMSs, where with the scale from 1 to 5 (5 being the best) you could evaluate your own ARE attitude, your colleagues attitude and your line manager’s attitude. Once this measurement was implemented the company’s strategy had been updated and gone through in several work-shops. During those discussions it was stated that to reach the objectives, the right kind of Are attitude was needed. That is why it was measured and this metric was followed also in the meetings of the board of directors or Are. On purpose the definition of Are attitude was not readily given or written down. Everyone had to think themselves what it means. “At the moment this innovative metric starts to suffer from inflation”, Kulmala states. This has happened due to the frequent measurement and the latest acquisition of Lemminkäinen. At the moment big part of the present personnel has not been involved in the original discussions regarding the strategy, the biggest differences of the new strategy compared to the old one or the meaning of attitude in reaching the common objectives. So at present there are many people on board to who Are attitude doesn’t really mean anything tangible. The “pulse-metric” measuring engagement is supposed to replace this attitude metric, which will be systematically followed also on the board of directors.

In Kulmala’s opinion all such metrics that tell about the present situation and can be affected on the short run, are good operative metrics. Typically different efficiency metrics are such. Those are constantly adjusted through operative actions.

The biggest recent change in measuring HR related matters is in the depth and accuracy. For example working ability reporting has been developed together with the occupational health provider. Now also IT-systems support this kind of more accurate measuring to identify individuals with the biggest need for supportive actions. Present metrics are for example tripartite discussions, return to work from part-time sick leave and rehabilitation actions. In general those matters that need to be affected are given appropriate metrics.

The company values have been defined, but any specific value work-shops have not been done. The recently updated strategy picture of ARE includes also values. When the acquisition of Lemminkäinen was done, the senior management team of ARE

wanted to update the company strategy in such a way that also new ARE employees would look and feel some familiar elements in it. Once the “pulse-metric” is implemented, also realization of the company values will be measured with it.

Kulmala thinks that the company values are in general quite difficult to understand, at least in the same way. Easily the whole subject is avoided. Those cannot be too fancy and must be translated to easily understandable form; What do the values mean in my own everyday work? How should I act in my role to live by the company values? Are's values are: we work together, we are professionals, we provide results. Under each value there are few bullet points, what does that mean in my own work. For example we work together is clarified so that we don't leave our colleagues in trouble.

4.3 MetroAuto Group

4.3.1 Core business of MetroAuto Group

Metroauto Group is a family owned car retail company that currently has two subsidiaries in Finland and one in Sweden. The Finnish subsidiaries are Metroauto Oy, operating in Espoo, Vantaa, Raisio and Tampere and MW Finland Oy, operating in Helsinki as Toyota Itäkeskus and Vantaa as Toyota Airport. In Sweden the subsidiary is called Toyota Center and it operates in greater Stockholm area. Altogether MetroAuto Group has approximately 500 employees. Gerdt Wrede founded the company in 1925 and the Wrede Family has been running it ever since.

MW Finland and Toyota Center are concentrated in serving Toyota customers.

Metroauto Oy sells and repairs several different brands, such as Skoda, Opel, Subaru, Mazda, Fiat and Alfa Romeo. All points of sales also include full maintenance and repair services as well as spare parts, insurance, finance and rental services.

The degree of competition in the car retail market is high and the market is strongly saturated. The business model brings the volume and revenue from the new cars and the profit from the aftermarket operations (spare parts, build up, maintenance and repair) and the sales of used cars.

4.3.2 HR measurement in MetroAuto Group

In MetroAuto Group HR related metrics were collected into HR Score Card in 2013 by the author, who at that time worked in the company as Group HR Manager. The HR score card was approved by the board of directors as the HR KPI list. At that time there were two more subsidiaries, one in Sweden and one in Norway, which also operated in Belgium. The HR KPIs were collected by the Group HR Manager quarterly from all five subsidiaries as well as the parent company. One of the metrics was measured only yearly.

The metrics were personnel costs, FTE (full time equivalent), sick leaves and employee satisfaction. Every area included several more specific metrics. At that time the company's core strategic objective was to enhance efficiency and productivity.

The HR score card metrics in year 2013 were;

Personnel costs, including salaries and social costs. These were measured monthly from each business unit

- Actual, €
- Actual, % of sales
- Budget, €
- Budget, % of sales
- Actual – Budget €
- Actual, % of sales, the previous year
- Average personnel cost in € / person / year (not in use at present, 2016)

FTE

- of the measured period, this year
- of the measured period, previous year
- the change

Sick leaves

- actual sick leave days of the measured period
- % of total days in the measured period
- days/FTE (not in use at present)

Employee satisfaction (the survey scale 1 – 5),

- motivation
- employee image

- management culture
- general employee satisfaction

According to the information gotten from the company this autumn, the employee survey has not been done since 2013. Now in the autumn 2016 the employee survey is planned to be done and also these questions are to be measured again.

Also at MetroAuto Group measuring is seen important. KPIs tell that actions are done according to the strategy. KPIs also show the efficiency or inefficiency of the chosen actions. Therefore those help to choose the right actions for the future. A good KPI is linked directly to the company's strategy and objectives. Without this link KPIs basically have no meaning.

In MetroAuto HR KPIs are defined to be those attached to personnel costs, head count, efficiency, availability, productivity and commitment. Besides these, important HR metrics also at the moment are such that measure agreed actions in work-ability processes. For example the discussions that are meant to be had after certain absenteeism alarm limits are filled. The amount of those discussions is measured and then compared to the actual amount of employees whose alarm limits have exceeded. Finally after several years, in co-operation with the occupational health service provider, such reporting tools have been developed that this kind of measurement can easily be done

In the recent years the HR KPIs have not been really renewed but merely reduced. The concentration has been more on actions than on measuring those.

At the moment there is no specific value discussion or debate ongoing at MetroAuto. Sometimes in different meetings and trainings the company values are discussed, but that has not been systematic in the recent years. In general the company values and their implementation could easily be measured for example as a part of the employee survey.

5 Conclusions

5.1 What is possible to achieve with this study

The objective of this study was to define a list of most essential HR related KPIs that measure sustainable efficiency and productivity in retail and could be used locally or possibly also in wider scope. This study gives perspective to measuring and the meaning of it. It is referring less to literature and other prior research and more to the deep semi-structured interviews of HR experts and the author's own experience in HR roles.

The importance of well chosen metrics at all levels of organization is clear throughout this study. The metrics that are approved by the top management as KPIs must be connected to the company's strategy. Clear vision, strategic path towards that vision and KPIs that show the way and the needs for correcting actions all support each other.

In the Finnish reference materials people are fluently put in the core of productivity. It is remarkable that in the case company the KPIs that relate to wellbeing at work (absenteeism) or engagement (turnover, voluntary leavers) are very much cost-oriented. For example engagement survey results are not even mentioned in KPIs or anywhere else on the statements of the upper level of the organization. If this study would somehow convince the case company's higher management levels of the importance of employee engagement and motivation and perhaps of the value of the seeking for KPIs related to those that would be good achievement.

There are definitely challenges in being part of a big global company. The possibilities that local operations have to affect to KPIs are very limited. It is almost funny how some defined KPIs and the different local mechanisms behind those are now very well understood globally. A good example of such KPI is absenteeism. In Finland and in the case company one of the collective agreements grant paid sick leave as long as for six months. Kela does compensate that partly to the employer after 1+9 days, but still it is obvious that in Finland it doesn't mean instant drop in the income level, even if sickness lasts long. That does affect to absenteeism. This is quite impossible to comprehend for anyone in UK, where managers have authority to decide after certain amount on absence days that sick leave will not be paid anymore. Towards that it is logical that in Finland the sick leave rates are, and will be, higher than in UK. Still every month the explanations are asked for higher rates compared to some other locations. And every month nearly the same explanations are delivered. That is fine and belongs to being part of big global company, but sometimes it seems that the time used for this could

also be used more efficiently. Also the Finnish system of social costs and the mutual funding of pensions is essential part on personnel expenses (PEX) that are remarkably higher than in many other group countries. That as well is extremely hard to explain to anyone outside the country.

There are listed KPIs that are followed on the group level. Besides those few more internal KPIs could be followed as well. “Keep it simple” must stay as the leading idea. The basic HR and training data needs to be collected monthly and the actual KPIs can be lead from those.

In the case company there was an employee engagement survey model that has been used throughout years in different locations. Recently the survey model has been changed by the new owner. In the old survey an engagement index was formed from the answers to certain questions. This index consists of themes Say, Stay and Strive.

- *Say* tells about the employees’ will to recommend the company as place to shop, pride to work for or with the company and will to recommend the company as great place to work.
- *Stay* measures how employees’ answer to the question “I would like to be still working for our company in 12 months time”
- *Strive* tells about the employees’ will to suggest ideas to improve the ways of doing things and how working in the company feels, do the employees want to make an extra effort.

In this employee survey there are no questions about equally shared work tasks and sharing information efficiently, which rise in some Finnish research as the most important indicators of work satisfaction. In general in Finland, by the authors experience, if there would be one word that should describe the working values or cultural values in working places that word would be “equality”. Perhaps one important HR related national KPI should somehow measure that feeling of equality amongst the personnel of the company.

5.2 HR related KPIs that measure sustainable efficiency and productivity in travel retail business

By using the BSC model as reference, the metrics that describe success in customer and stakeholder satisfaction and on the other hand in the organizational capacity being

knowledge and development, can be defined as those HR related KPIs that measure sustainable efficiency and productivity in travel retail business.

Sales, customer satisfaction and customer loyalty are good HR related KPIs in the service industry. There are several other factors as well that may not be in the hands of those who actually meet the end customers every day. Such would be the availability of the products or pricing decisions, which would be under internal business processes in the BSC model and which affect to the gross profit. Still, if other conditions stay the same, customer satisfaction and loyalty can be used as KPI for the quality of service of the company and therefore that can predict also the future success of the company.

Relative KPIs, such as total personnel costs or sales would measure financial effectiveness and sales /FTE of sales staff would be perfect for measuring productivity in the knowledge and development corner of BSC. Looking at internal processes one essential HR related KPI might be employee head count / supervisors head count, where 7 – 10 could be the target level ensuring good level of efficiency in sharing information and work tasks.

Another important area in travel retail, where the stores' opening hours are very wide, nearly 24/7 all around the year, the manpower planning function as internal business process has very big impact on the effectiveness. In the case company there are two metrics used in manpower planning, another being service level (how well the customers coming into the stores are served) and another being efficiency (how well the working shifts were planned compared to the need of manpower).

Engagement of the employees could be easily measured with two frequently asked questions "Would you recommend our company as great place to work? Would you still like to work here in 12 months' time? Those would definitely be indicators for the future success of the company.

Turnover (voluntary leavers) of the newly hired employees during the first year tells about efficiency on internal processes e.g. induction, the level of leadership, meaning the quality of line manager work, and also financial performance. It is extremely expensive to constantly recruit new employees. Some calculations show that if the employment will last less than four months, it would nearly always be financially more effective to use external personnel from the agencies. After four months the cost start to turn so

that hiring employees to own payroll becomes more beneficial. That example is just to show how expensive recruiting is. Of course that cost varies a lot depending on the job role where the new employee is hired to.

Absenteeism is also an important metric due to its direct and indirect cost effects, which for example in Finland are huge. Therefore it should be really well defined, how absenteeism is reported, which hours are counted into absent hours and for what purpose the information is used. For example short term absenteeism includes usually both physical short term sicknesses, such as infections, but it also quite often motivational sicknesses. The latter is most likely due to non-clarity in job roles and responsibilities or just simply poor leadership. The long term absenteeism includes often difficult individual health challenges but there may also be matters to which it would be possible to affect positively in the working place. Anyhow, the absenteeism should not be followed on the group level at all because there cannot be understanding of different local environments and more importantly, there is nothing someone can do about it from the group level. In retail business both sales and PEX will reflect the effect of absenteeism and that should be enough on the group level.

5.2.1 The most important HR related KPIs

The most important HR related KPIs should be defined to both local and divisional level. On the group level those have less meaning because the actions through which the KPIs can develop positively need to be done on the lower levels of the organization.

Thinking about the most important HR related KPIs we may define one or two on every corner of the BSC model.

- Organizational capacity, knowledge and development: employee engagement index combining few essential questions, of which some were mentioned earlier
- Internal business process: manpower planning service level and efficiency
- Customer satisfaction: ending the sale by mystery shopping or willingness to shop again by customer survey
- Financial performance: PEX % of sales, EBITDA

5.2.2 HR related KPIs affect to each other and should be balanced

It is essential to remember that the KPIs that are used in specific areas or the company's operations or departments are not isolated from other parts or operations of the company. If one KPI moves, another is likely to move as well. For example, if PEX is reduced by redundancies, that is likely to grow absenteeism and therefore to grow PEX. The author of this study has seen it often that Finns don't strike, we get sick. Another example would be how FTE's effect to PEX and to sales. By growing sales staff FTE the sales are also likely to grow, but so will PEX. It is then important to stay in balance and follow some KPIs that will help to keep the FTE level right. Such could be sales/FTE (€), PEX/sales (%) or similar relative metric.

Another example of these relations between KPIs and other metrics could be as follows: Employee engagement affects positively to sales, absenteeism affects negatively to sales, employee engagement affects to absenteeism and that affects to PEX. So, if engagement is good, there will be less absenteeism, therefore better sales and lower costs.

5.3 Recommendation for HR related KPIs in the case company

The case company's challenges are being global business and having several recently merged companies inside it. Therefore there should not be more than one or mostly two KPIs that were followed throughout the group on all its different levels. Any other KPI should measure the actions to which it is possible to effect on that level. As Drotter writes in his book "Performance pipeline", the clarity of role and purpose for every employee are essential (Drotter, p8). The highest level of the organization must deliver those and then respect that system and organizational structure.

On the group level the most important thing would be to make sure that defined KPIs are measured the same way on all organizational levels. It would be also essential to define different target levels for different geographical parts of the business. It must be understood that comparisons between divisions and local operations should not be done without considering the different environments, e.g. absenteeism and total PEX per sales. Both of those vary a lot between countries.

KPIs should be agile in a way that those can be changed if the need for measuring changes. Especially those areas of operations where there are challenges, should be

measured with more precise and more frequent metrics than those where the targets are reached well.

5.3.1 Group level

EBITDA, Earnings Before Interest, Taxes, Depreciation and Amortization, seems to be the most important KPI that is followed on the highest level in the case company. It can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions (Investopedia). That might even be the only KPI that needs to be looked at on the group level, because all other KPIs and actions behind those lead to this one KPI. Also all HR related KPIs generate EBITDA. In this case it would be important that the actions on the lower levels of the organization were not steered from the highest level.

Since there will be also HR related KPIs that are followed on the group level, the amount of those should be minimal. The recommendation of this study is to have just two clearly HR related KPIs on the group level. Those should be

- Customer satisfaction. One question such as “Would you like to come again shopping in our stores?” This measurement method could be the same around the whole group. The frequency and the method of measuring this should just be decided. This customer related KPI would measure also HR through the level of the service that the customers get. The service experience and will to return as a customer is also measuring the future success of the company.
- Total PEX / sales (%). Instead of trying to define the same target level for all operations there should be separately defined target levels for each operation or at least for each division. The trend of this KPI should then be followed on the group level instead of the absolute PEX.

5.3.2 Divisional level

On the division level the same two KPIs should be followed as on the group level: customer's will to return as a customer and PEX ratio. On the division level some additional KPIs are well grounded. The KPIs that are followed at the moment are: HC, FTE, turnover (new recruits and leavers), PEX and absenteeism.

The same challenge stays inside the division than on the global level that the environments are very different in different locations. On the division level these differences could be also used for benchmarking purposes inside the division. Therefore more KPIs should be used on the divisional than global level.

The company's training KPIs are named as KPIs but those rather are operative metrics which need to be followed. All figures are reported in absolute HCs. When those are compared to the amounts of newly recruited staff or staff HC in general, the training metrics start to make more sense also as KPIs. On the training and development sections there could be used also KPI that would measure changes in the work roles inside the company, division or group.

The recommendation for division level HR related KPIs are:

1. Customer's will to return
2. PEX ratio
3. Sales/sales staff FTE (supervisors & store manager sincluded)
4. Active sales staff HC / active support staff HC (including warehouse and admin)
5. Absenteeism %

The relative KPI number 3 Sales / sales staff FTE indicates the efficiency of resourcing and also sales opportunities. The number 4 Active sales staff HC / active support staff HC tells how heavy the organizational structure is. The number 5 Absenteeism % is essential because the costs effect of the absenteeism is remarkable and besides that high absenteeism affects to customer service.

5.3.3 Local level

The local level KPIs should be such that those can be easily affected by local actions. It would be important to have easy access to all the data which provides these KPIs. Besides all previously on the division level mentioned KPIs, customer satisfaction as well as employee satisfaction and engagement would be important to follow more precisely. Turnover (e.g. voluntary leavers during the first year of the employment) tells something about the quality of induction, boss work and also the quality of recruiting.

In the case company performance management reviews (PMR) are done twice a year by a certain group-wide model. Management by objectives (MBO) is also an essential tool inside the group. It is connected to PMR so that the objectives agreed on that are transferred into the individual's MBO, which is the base of the bonus system. That is why these models are importance on the group and divisional levels. Still, the real value of these models lies on the local level. By using those in a clever way and defining the KPIs so that those would really support the company objectives, the link between the actions to implement the company strategy and the individuals doing the work can be created.

On the local level the selection of KPIs should be very agile. The division level KPIs must naturally be followed also locally, but besides those metrics there should be some more. On the local level there can be such operative metrics which quickly indicate the influence of the implemented action plans. Those can totally depend on the department, operation or team. Such might be flawlessness of the deliveries in the warehouse functions or the rate of kept development discussions for all managers. There can also be some local level KPIs, for example in Finland related to such wellbeing related actions that help to prevent early pensions due to the loss of work ability e.g. rehabilitation actions, absenteeism rate in of long illnesses or the amount of tripartite discussions. Such KPIs wouldn't mean anything in the countries where the pensions system is based on something else than mutual funding of the future pensions. Though in our environment it is meaningful and looks exactly into the future.

5.4 Opinions and thoughts about HR related KPIs and their meaning to company's success

One-eyed view to any KPIs must be avoided in every organization. To understand the relations between different factors is essential for sustainable success. Especially when people are involved, the management and leaders on every level should follow also such KPIs that monitor feelings and perceptions.

To keep the HR related measuring in balance the BSC model could be utilized. To every corner of it can be found KPIs where people are involved. Those are valid on the local and division level. On the group level it is essential to define just few strategic HR related KPIs that can measure the future success of the company. By doing that the value of human capital would also be recognized.

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Thematic interview - questions

- In your opinion, is measuring important? Why?
- How do you define a good KPI? What needs to be considered?
- Which KPIs do you classify as HR KPIs?
- Which HR KPI's are used in your company at the moment (strategic, operative)?
- Have KPIs changed in recent years?
- Do you have conversations about values in your company?
- What do you in general think about values, their actualization and measuring this actualization?
- Do you remember Anttila and K-Citymarket study from approximately year 2006? The Helsinki School of Economics was involved as well as some public organization. The employee satisfaction index that was developed through the results of this survey combined economical success with the results in employee survey. The most important questions that correlated to the economical success, were something like “my manager shares information efficiently to the team” and “my manager shares work tasks equally”. What do you remember of that study and would you have a copy of the results of the study?

Additional questions were asked as the interview went on.